CHAPTER

3

The Revenue Outlook

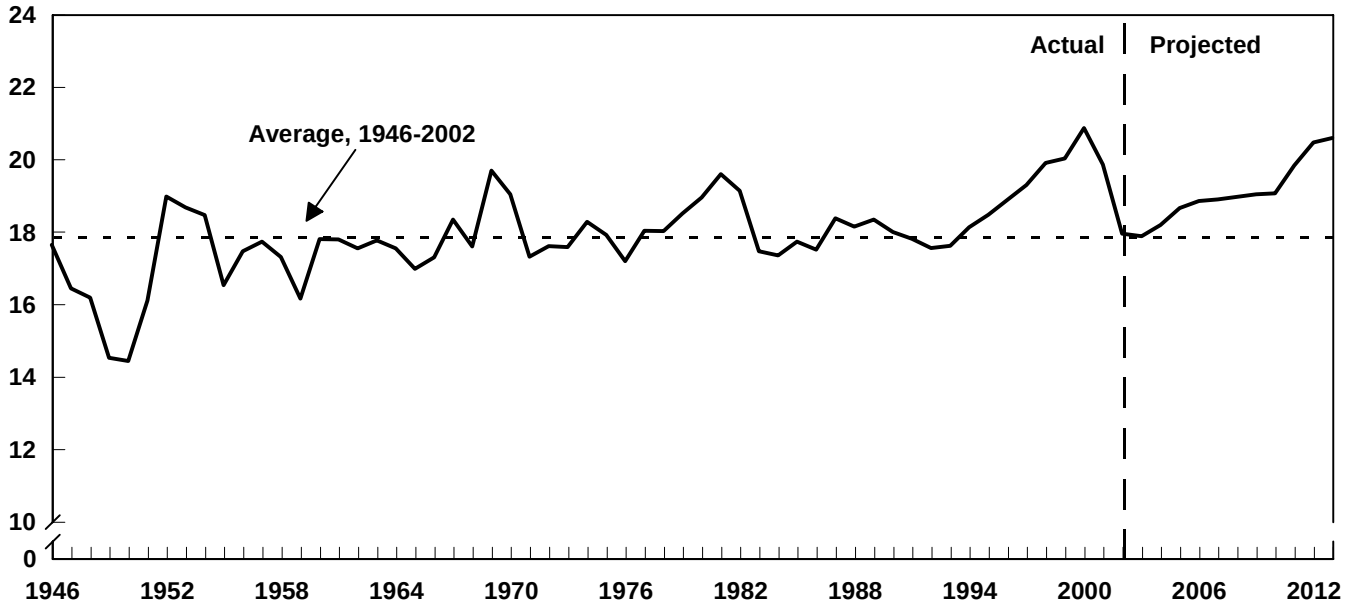
If current policies remained unchanged, federal revenues would total $1,922 billion in fiscal year 2003, the Congressional Budget Office estimates. That amount is about $70 billion (or 3.7 percent) more than revenues totaled last year—but still well below the $2,025 billion collected in 2000, the peak year for federal receipts. As a share of gross domestic product, revenues are projected to equal 17.9 percent this year, the same as in 2002 and roughly the average for the post-World War II period (*see Figure 3-1*). That revenue share of GDP has returned to just below the level of 1994, reversing a six-year climb that culminated in a postwar peak of 20.8 percent in 2000.

Over the coming decade, receipts are expected to increase again, growing faster than GDP in each year after 2003 (*see Figure 3-2*). That ascent is driven mainly by the tendency of the tax system to increase the proportion of income collected in taxes as income grows. Beginning in 2011, the trend of rising receipts becomes especially pronounced as the tax cuts enacted in 2001 expire.

Figure 3-1.

Total Revenues as a Share of GDP, 1946-2013

(Percentage of GDP)

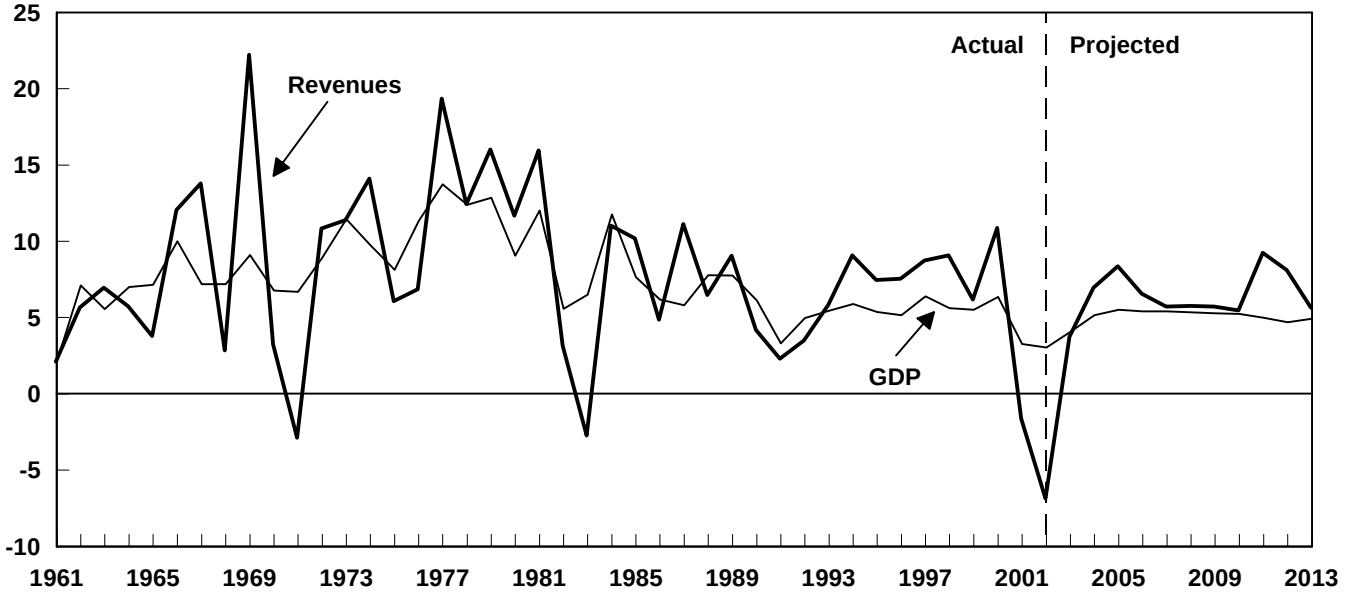


Source: Congressional Budget Office.

Figure 3-2.

Annual Growth of Federal Revenues and GDP, 1961-2013

(Percentage change from previous year)



Source: Congressional Budget Office.

CBO's current revenue projections are slightly lower, on average, than the ones it published in August. CBO is now projecting a total of $208 billion less in receipts for the 2003-2012 period than it did last summer. The lower estimate stems primarily from changes in CBO's economic forecast, which tend to reduce receipts by modest amounts throughout the 10-year projection period. The rest of the change since August results from reestimates of the amount of receipts that would flow from a given level of overall economic activity. Those reestimates reduce projected revenues by small amounts over the first seven years of the projection period.

Recent Revisions to CBO's Revenue Projections

In August, CBO projected that receipts would total $26.4 trillion over the 2003-2012 period (*see Table 3-1*). The current projection for that period is $26.2 trillion, a reduction of 0.8 percent ($208 billion).

That modest decline contrasts sharply with revisions over the past year and a half. In CBO's three previous reports on the budget outlook, revenue projections were revised downward substantially. Large revisions in revenue projections are not unusual around turning points in the business cycle, but the actual level of receipts in 2001 and 2002 took most forecasters by surprise, since receipts changed even more dramatically than income did. That result largely stemmed from changes in revenues that are generated by volatile and difficult-to-predict determinants of the tax base.

In January 2001, CBO projected total revenues of $2,135 billion for fiscal year 2001, including $1,076 billion in individual income tax receipts and $215 billion in corporate income tax receipts. Although that projection was made when the fiscal year was already under way, it proved to be too high by $144 billion (individual income taxes were $82 billion lower than projected and corporate taxes were $64 billion lower). In January 2002, CBO projected revenues of $1,983 billion for fiscal year 2002, of which individual income tax receipts constituted $947 billion and corporate income tax receipts $179 billion. That year, actual revenues were $130 billion lower than projected (with individual and corporate taxes accounting for $89 billion and $31 billion of the overestimate, respectively).

Table 3-1.

Changes in CBO's Projections of Revenues Since August 2002

(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total, 2003-2012
Revenues in CBO's August 2002 Baseline	1,962	2,083	2,244	2,381	2,513	2,658	2,809	2,965	3,243	3,521	26,379
Legislative Changes	*	*	*	*	*	1	1	1	1	1	5
Other Changes											
Economic	-9	-14	-8	-2	-1	-6	-9	-16	-31	-50	-146
Technical	-32	-15	-11	-10	-8	-5	-2	*	7	8	-67
Subtotal	-41	-29	-19	-12	-9	-10	-12	-16	-23	-42	-213
Total Changes	**-41**	**-29**	**-19**	**-11**	**-9**	**-10**	**-11**	**-15**	**-23**	**-41**	**-208**
Revenues in CBO's January 2003 Baseline	1,922	2,054	2,225	2,370	2,505	2,648	2,798	2,949	3,220	3,480	26,170

Source: Congressional Budget Office.

Note: * = between -$500 million and $500 million.

New Information About the Cause of the Overestimate in 2001

Each projection of fiscal year receipts is made up of a mix of calendar year tax liabilities. Income tax liability for calendar year 2001 contributed to receipts in both fiscal years 2001 and 2002. Preliminary summary data tabulated from 2001 individual income tax returns are now available, which can explain more about why individual income tax liability in 2001 fell so far short of projections. More-detailed analysis must await the examination of fuller summary statistics and a sample of tax returns, which will not be available until later this year. (Details about 2002 tax liability will not be available for another year.) However, the data now in hand reveal many of the broad outlines of the projection shortfall. They also provide some insight into what CBO often characterizes as "technical" changes to its baseline revenue projections.

CBO's projection of individual income tax receipts for fiscal year 2001 relied partly on a projection of calendar year 2001 liability of $1,055 billion. On the basis of tax collections, CBO now estimates that actual tax liability for that year was $876 billion. Of the $179 billion unforseen shortfall, $52 billion came from legislation—specifically, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), enacted in the spring of 2001, and the economic stimulus law, enacted in March 2002.[1] That leaves $127 billion in reduced liability to be accounted for.

The information now in hand identifies two sources of that shortfall. First, economic activity in 2001, as measured by the national income and product accounts (NIPAs) did not end up as high as CBO had projected in January 2001. Although CBO built a slowdown in economic activity into its projections, wages and other taxable nonwage income turned out to be lower than CBO's estimates of them. That lower-than-estimated income accounts for about $19 billion of the shortfall in calendar year 2001 tax liability.

Second, capital gains realizations dropped precipitously in calendar year 2001. In 2000, those realizations were at an all-time high. CBO did not expect that level to persist, but no reliable methods exist to forecast when and how quickly realizations can be expected to decline from

1. Because the stimulus law increased depreciation deductions for certain property purchased after September 10, 2001, the 2001 income tax liability of some individuals with business income declined after the fact, even though the law was enacted in 2002.

such a high. Hence, CBO projected that realizations would fall gradually to a level commensurate with their historical relationship with GDP. Data now indicate that the fall in capital gains realizations essentially occurred all in one year: a drop of 50 percent in 2001. That decline reduced 2001 tax liability by about $68 billion.

The remaining $40 billion shortfall must still be explained. That decrease in the effective tax rate on nongains income could have arisen from several phenomena. One possible source is slower-than-predicted growth in distributions from retirement accounts. That effect should be discernable when more-complete summary statistics on 2001 tax filings become available over the next few months. Another source of the remaining shortfall could be a significant slowing of the growth of income among high earners (households that pay the highest marginal tax rates) relative to income growth among other taxpayers. The contribution of that effect cannot be estimated until a sample of 2001 tax returns becomes available this summer.

Corporate tax liability for calendar year 2001 also fell short of CBO's projection. Actual liability was $143 billion, compared with a projection of $214 billion. Legislation—principally the stimulus package passed in March 2002—reduced corporate tax liability by about $20 billion.[2] Of the other $50 billion in shortfall, about $30 billion resulted from lower-than-estimated corporate book profits. The source of the rest is still unknown and must await further analysis.

The Connection Between Economic and Technical Revisions

Most of the identifiable sources of the shortfall in 2001 tax liability were a result of changes in the economy. When CBO revises its revenue projections, it categorizes the revisions according to whether they have economic, technical, or legislative causes. In that breakdown, sources of revisions like the ones described above are mostly classified as technical, meaning that the revisions do not spring directly from changes in the outlook for variables that make up CBO's economic forecast. However, most technical and economic revisions are similar in that they are rooted in hard-to-predict changes in economic conditions that play out in different ways as changes in receipts.

In the case of the projections of 2001 tax liability, CBO made large downward technical reestimates to its revenue forecast in the summer of 2001 partly because actual tax collections were weaker than the economic forecast at the time indicated. Since then, the Bureau of Economic Analysis has reduced its NIPA measures of wages and salaries and of corporate book profits for 2001. Thus, revisions to the revenue projections that CBO had deemed technical turned out to be related to overall economic performance. In that case, about half of the effect of book profits on tax liability and all of the effect of wage income were classified as technical changes in CBO's forecast.

Changes in revenues related to such factors as the relative income growth of the most highly taxed people, distributions from retirement accounts, and projections of capital gains realizations are classified as technical revisions because they are not derived directly from a macroeconomic projection of economic activity. In particular, income distribution and capital gains realizations are highly variable relative to typical measures of overall economic performance, so even an accurate forecast of output, employment, and inflation offers little insight into the future course of receipts they will generate. Nonetheless, those factors are clearly driven by events in the economy.

Implications for CBO's Revenue Projections

This examination of the differences between actual and projected tax liability illustrates three important aspects of CBO's revenue projections. First, it highlights the difficulties posed whenever the economy is at a turning point. A peak in the business cycle marks the dividing line between various factors that tend first to drive receipts up and then drive them down. The turnaround in 2001 produced a major shift in the revenue outlook in a very short time.

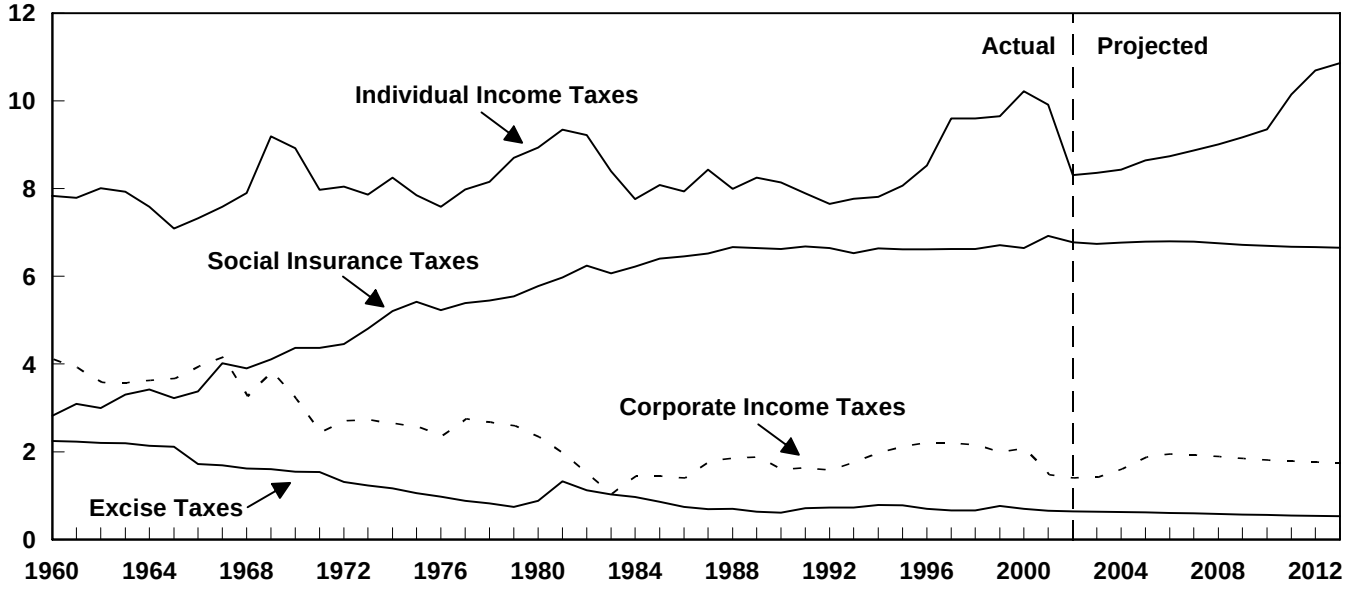
Second, this examination reveals the degree to which technical changes in CBO's projections are fundamentally related to shifting economic conditions. Changes in capital

2. As in the case of individual income taxes, the stimulus law changed 2001 corporate tax liability after the fact. EGTRRA, which affected corporate tax receipts in 2001, did not alter the level of liabilities, since it simply shifted the receipt of liabilities from fiscal year 2001 to 2002.

Figure 3-3.

Revenues, by Source, as a Share of GDP, 1960-2013

(Percentage of GDP)



Source: Congressional Budget Office.

gains realizations and relative rates of income growth among classes of taxpayers, as well as revisions to income data resulting from mismeasurement in the NIPAs, are all treated as technical reestimates in CBO's classification system, but they are nonetheless driven by the economy.

Third, this examination shows how lags in the availability of data can affect projections. Even now, not all of the causes of the behavior of tax liability in 2001 are known. When CBO makes revenue projections, it must often attribute behavior in receipts that is unexplained by contemporary measures of income to various sources without any further information. Those difficult-to-attribute receipts can profoundly affect projections of future revenues, depending on whether they are expected to persist, grow, or diminish. As a consequence, they can influence revenue projections well beyond the period directly affected by the current business cycle. It may be possible to improve the accuracy of projections with more timely availability of data. In particular, the ability to distinguish incoming income tax withholding payments from payroll tax receipts could help in more quickly identifying the effect of wage behavior on current receipts.

Revenues by Source

Federal revenues come from a variety of sources: individual income taxes, corporate income taxes, social insurance (payroll) taxes, excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts. Individual income taxes currently produce nearly half of all revenues and claim slightly more than 8 percent of GDP (*see Figure 3-3*). Social insurance taxes (mainly for Social Security and Medicare's Hospital Insurance) are the second largest source of receipts. They generate more than a third of federal revenues and amount to a little less than 7 percent of GDP. Corporate income taxes contribute less than one-tenth of overall revenues and represent approximately 1.5 percent of GDP. Revenues from other taxes, duties, and miscellaneous receipts (including profits from the Federal Reserve System) make up the balance and together constitute about 1.5 percent of GDP (*see Table 3-2*).

Over the coming decade, the relative importance of those revenue sources is expected to shift only slightly. With the expiration of EGTRRA, individual income taxes will cause most of the rise in total receipts relative to GDP; those taxes will increase in importance from just under half of

Table 3-2.

CBO's Projections of Revenues

	Actual 2002	2003	2004	2005	2006	2007	2008	2009
						In Billions of Dollars		
Individual Income Taxes	858	899	954	1,031	1,099	1,176	1,259	1,349
Social Insurance Taxes	701	725	766	811	856	901	944	989
Corporate Income Taxes	148	156	185	228	249	260	269	276
Excise Taxes	67	68	71	74	77	79	82	84
Estate and Gift Taxes	27	21	24	21	24	20	22	23
Customs Duties	19	18	20	20	21	22	23	24
Miscellaneous	34	33	36	40	44	47	50	52
Total	**1,853**	**1,922**	**2,054**	**2,225**	**2,370**	**2,505**	**2,648**	**2,798**
On-budget	1,338	1,390	1,496	1,637	1,751	1,853	1,963	2,079
Off-budget[b]	515	532	558	588	619	651	685	719
						As a Percentage of GDP		
Individual Income Taxes	8.3	8.4	8.4	8.6	8.7	8.9	9.0	9.2
Social Insurance Taxes	6.8	6.7	6.8	6.8	6.8	6.8	6.8	6.7
Corporate Income Taxes	1.4	1.5	1.6	1.9	2.0	2.0	1.9	1.9
Excise Taxes	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Estate and Gift Taxes	0.3	0.2	0.2	0.2	0.2	0.1	0.2	0.2
Customs Duties	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Miscellaneous	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Total	**17.9**	**17.9**	**18.2**	**18.6**	**18.8**	**18.9**	**19.0**	**19.0**
On-budget	12.9	12.9	13.2	13.7	13.9	14.0	14.1	14.1
Off-budget[b]	5.0	4.9	4.9	4.9	4.9	4.9	4.9	4.9

Source: Congressional Budget Office.

a. Numbers in the bottom half of the column are shown as a percentage of cumulative GDP over this period.
b. Social Security.

revenues now to just over half in 2013. Corporate income taxes are also expected to grow in importance as profits recover from their current lows. EGTRRA will have a profound effect on the significance of estate and gift taxes—they will virtually disappear in 2010 and 2011 before springing back to their previous importance when EGTRRA expires. Excise taxes will continue their slow decline in significance as a revenue source.

Individual Income Taxes

Individual income taxes account for most of the projected change in revenues as a share of GDP over the next 10 years. That is not surprising: they were also responsible for most of the rise in that share during the late 1990s and most of the drop over the past two years. Individual income tax receipts grew at an average rate of nearly 11 percent a year from 1994 to 2000. Their share of GDP reached a historical peak—10.3 percent—in 2000. That trend was halted by the recession that began in March 2001 and, to a much lesser extent, by the tax cuts enacted in EGTRRA. Individual income tax receipts fell to 9.9 percent of GDP in 2001 and to 8.3 percent in 2002. As a consequence, the nominal level of federal revenues dropped for two years in a row—the first time that had happened since 1959.

Because some of the factors causing the low level of receipts in 2002 are temporary, and because the design of the income tax system causes revenues to grow faster than output, CBO expects individual income tax receipts to

2010	2011	2012	2013	Total, 2004-2008[a]	Total, 2004-2013[a]
1,447	1,649	1,819	1,939	5,518	13,720
1,037	1,085	1,134	1,188	4,277	9,709
285	295	306	316	1,190	2,669
87	90	92	95	383	831
15	19	43	47	110	258
25	26	27	28	107	237
54	56	59	61	217	500
2,949	**3,220**	**3,480**	**3,674**	**11,802**	**27,923**
2,193	2,428	2,650	2,805	8,701	20,856
756	792	830	870	3,101	7,067
9.3	10.1	10.7	10.9	8.8	9.5
6.7	6.7	6.7	6.7	6.8	6.7
1.8	1.8	1.8	1.8	1.9	1.8
0.6	0.6	0.5	0.5	0.6	0.6
0.1	0.1	0.3	0.3	0.2	0.2
0.2	0.2	0.2	0.2	0.2	0.2
0.4	0.3	0.3	0.3	0.3	0.3
19.1	**19.8**	**20.5**	**20.6**	**18.7**	**19.3**
14.2	14.9	15.6	15.7	13.8	14.4
4.9	4.9	4.9	4.9	4.9	4.9

increase relative to GDP throughout the coming decade. That rise will be especially pronounced after 2010, when the EGTRRA tax cuts expire. Individual income tax receipts are projected to reach a new historical peak of 10.7 percent of GDP in 2012 and then continue rising to 10.9 percent of GDP in 2013 (*see Table 3-3*). Indeed, despite their recent slide, individual income tax receipts are projected to remain well above their post-World War II average of 8.1 percent of GDP.

The expected course of those receipts over the next 10 years is best understood in the context of their behavior over the past decade. The roots of the recent decline in individual income tax receipts lie in the increase that occurred in the late 1990s. That increase was caused by some unusual phenomena, whose reversal was probably the major reason for the subsequent decline.

The Growth of Receipts Through 2000. With few exceptions, revenues from individual income taxes have tended to grow slightly faster than GDP. Until the 1990s, big jumps in the receipts-to-GDP ratio were caused by legislation, such as the surtax imposed in 1969, or by rapid price increases (before the tax code was indexed for the effects of inflation) that effectively decreased the levels of real income at which higher tax rates applied. Between 1994 and 2000, however, individual income tax receipts grew much faster than the economy for entirely different reasons:

- Taxable personal income—the components of GDP on which individuals pay taxes, including wages, interest, dividends, proprietors' income, and rental income, as measured in the NIPAs—grew faster than GDP during most of the 1994-2000 period. (For more information on the relationship between tax liability, taxable income, and GDP, *see Box 3-1 on pages 58 and 59*.) The resulting rise in the proportion of GDP attributable to taxable personal income increased the tax base for the individual income tax; that rise accounted for 20 percent of the growth of tax liability in excess of GDP growth over that period (*see Table 3-4*).

- Capital gains realizations grew more rapidly than taxable personal income during the 1994-2000 period. Those realizations are a component of adjusted gross income (AGI), which is the actual income base of the individual income tax, but they are not included in either GDP or taxable personal income. Capital gains realizations quadrupled between 1994 and 2000, with that increase beginning before capital gains tax rates were cut in 1997 (*see Table 3-5 on page 60*). As a result, taxes on those gains accounted for 28 percent of the growth of individual income tax liability above the growth of GDP.

- Other components of AGI that are not part of taxable personal income or GDP also expanded more rapidly than either of those measures. Among those components, retirement income (in the form of distributions from 401(k) plans and individual retirement accounts) and taxable Social Security benefits were especially

Table 3-3.

CBO's Projections of Individual Income Tax Receipts and the NIPA Tax Base

	Actual 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Individual Income Tax Receipts														
In billions of dollars	858	899	954	1,031	1,099	1,176	1,259	1,349	1,447	1,649	1,819	1,939	5,518	13,720
As a percentage of GDP	8.3	8.4	8.4	8.6	8.7	8.9	9.0	9.2	9.3	10.1	10.7	10.9	n.a.	n.a.
Annual growth rate	-13.7	4.7	6.1	8.1	6.6	7.0	7.1	7.1	7.3	14.0	10.3	6.6	n.a.	n.a.
Taxable Personal Income														
In billions of dollars	7,378	7,628	7,994	8,415	8,848	9,306	9,796	10,308	10,839	11,375	11,906	12,495	44,358	101,283
As a percentage of GDP	71.4	70.9	70.7	70.5	70.3	70.2	70.1	70.1	70.0	70.0	70.0	70.0	n.a.	n.a.
Annual growth rate	0.8	3.4	4.8	5.3	5.1	5.2	5.3	5.2	5.2	4.9	4.7	4.9	n.a.	n.a.
Individual Tax Receipts as a Percentage of Taxable Personal Income	11.6	11.8	11.9	12.2	12.4	12.6	12.9	13.1	13.3	14.5	15.3	15.5	n.a.	n.a.

Source: Congressional Budget Office.

Notes: The tax base in this table (taxable personal income) reflects income as measured by the national income and product accounts (NIPAs) rather than as reported on tax returns. An important difference, therefore, is that it excludes capital gains realizations.

n.a. = not applicable.

influential. The growth of those non-capital-gains components of AGI together accounted for 7 percent of the increase in liability relative to GDP growth from 1994 to 2000.

- Most significantly, the effective tax rate on individual income—that is, the percentage of total AGI paid in taxes—rose throughout the 1994-2000 period (*see Figure 3-4 on page 61*). Increases in the effective rate (on income other than capital gains) accounted for 45 percent of the growth of tax liability in excess of GDP growth. About three-fifths of that increase resulted from a phenomenon commonly referred to as real bracket creep, in which the overall growth of real income pushes more income into higher tax brackets. Much of the remaining increase in the effective tax rate appears to stem from the rapid growth of income at the top of the income distribution, which led to a greater proportion of income being taxed at the highest rates. Thus, even though the tax rates written in law did not increase, a larger share of income accrued to taxpayers facing the highest tax rates, which raised the overall effective tax rate.

Those sources of growth vary in the difficulties they pose for projecting future revenues. Some of the items are relatively simple to account for: given projections of income, real bracket creep is easy to incorporate into revenue forecasts because CBO's microsimulation model encompasses the existing rate structure of the income tax and the current distribution of income within that structure. In contrast, increases in the effective tax rate that result from changes in the distribution of income are virtually unpredictable because existing theory and past patterns provide no useful guidance in projecting distribution shifts. Likewise, capital gains realizations are notoriously difficult to project. Distributions from retirement accounts fall between the extremes of difficulty. Much of the past growth in individual income tax receipts as a share of GDP stems from hard-to-predict sources—enough to impart a great deal of uncertainty to future revenue projections.

The Decline in Individual Income Tax Receipts in 2001 and 2002. The recession that began in March 2001 marked a significant change in the growth of receipts that had characterized the previous several years. After rising at an average annual rate of nearly 11 percent for six years,

Table 3-4.

Why Did Individual Income Tax Liability Grow Faster Than GDP From 1994 Through 2000?

Reason for Additional Growth	Share of Liability Growth in Excess of GDP Growth (Percent)						
	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	Total, 1994-2000
Taxable Personal Income Grew Faster than GDP	21	12	14	42	-2	33	20
Adjusted Gross Income (AGI) Grew Faster than TPI							
Capital gains receipts grew faster than TPI	20	52	29	12	36	20	28
Other AGI grew faster than TPI	15	5	10	-4	20	-4	7
Subtotal	35	57	39	8	57	16	35
Changes in Effective Tax Rate on AGI							
Effect of real growth on rate	30	20	34	30	26	28	28
Concentration of income growth at the top of the income distribution (and residual)	14	11	13	20	19	22	18
Subtotal	45	32	47	51	45	50	45
Total	100	100	100	100	100	100	100
Memorandum:							
Growth of Individual Income Tax Liability in Excess of GDP Growth (Billions of dollars)	27	39	35	42	56	61	259

Source: Congressional Budget Office using data from Internal Revenue Service, *Statistics of Income, 1994-2000*.

Notes: Taxable personal income (TPI) is the sum of wages and salaries, interest income, dividends, proprietors' income, and rental income as measured in the national income and product accounts.

CBO calculated the percentage contribution of each of the sources of growth using the amount of tax liability that would have accrued without the child and education tax credits that took effect in tax year 1998. Excluding those credits allows consistent measurement between all of the years in the comparison.

individual income tax revenues fell for two years in a row, ending below their level of 1999. As a percentage of GDP, those revenues fell from their postwar high of 10.3 percent to 8.3 percent—lower than in 1996—essentially wiping out the growth relative to GDP that had occurred in the late 1990s.

Two reasons for that decline are relatively well understood: the slowdown in the economy and the tax cuts enacted in 2001 in EGTRRA. But beyond those events, several factors served to lower the amount of revenues produced by a given level of economic activity.

Just as capital gains realizations played a disproportionate role in the growth of receipts as a share of GDP in the 1990s, they played a similar part in the fall of receipts relative to GDP in 2001 and 2002. Realizations peaked at $644 billion in calendar year 2000. The best available information from 2001 tax returns indicates that they dropped to half that level in 2001 (about $322 billion), reducing receipts by $30 billion in fiscal year 2001 and by $37 billion in fiscal year 2002.[3] On the basis of the performance of the stock market, income, and other key determinants of realizations, CBO estimates that capital gains realizations fell by another 17 percent in calendar year 2002, to $268 billion, reducing receipts by an additional $5 billion in fiscal year 2002.

3. The percentage decline in taxable capital gains realizations is much greater than the fall in household wealth described in Chapter 2. Not all changes in stock values are realized for tax purposes. And much of household wealth is in the form of housing, which typically escapes capital gains taxation.

Box 3-1.

Tax Bases and Tax Liability

Tax receipts vary with economic activity, but they do not move in lockstep with gross domestic product (GDP), or output. Although the bases for taxes on individual and corporate income and for social insurance taxes are related to that economic measure, they differ from GDP in a number of important respects, which means that they sometimes grow faster and sometimes slower than output. As a result, the ratio of receipts to GDP may change even if tax laws remain the same.

The Individual Income Tax Base

Taxable personal income is the first approximation of the individual income tax base. It comprises dividends, interest, wages and salaries, rent, and proprietors' income. It does not include depreciation, indirect taxes on businesses (such as excise taxes), fringe benefits, or retained corporate profits.

Despite its name, not all taxable personal income is actually taxed. Some of it accrues to tax-exempt entities such as hospitals, schools, cultural institutions, and foundations; some is earned in a form that is tax-exempt, such as income from state and local bonds; and some is tax-deferred, such as income from retirement accounts, on which tax is paid not when the income is earned but when the person retires and begins to draw down the account. Also, personal interest and rental income contain large components of imputed income—income that is not earned in a cash transaction, including personal earnings within pension funds and life insurance policies and income from owner-occupied housing—that are not taxable. Consequently, a substantial amount of interest, dividend, and rental income is excluded from the taxable base of the income tax.

Taxpayers make further adjustments, both additions and subtractions, to taxable personal income to derive their **adjusted gross income**, or AGI. **Capital gains realizations**—the increase in the value of assets between the time they are purchased and sold—are added to taxable personal income. Contributions from income made to tax-deductible individual retirement accounts and 401(k) plans are subtracted, but distributions to retirees from those plans are added. Taxpayers also make a variety of other, smaller adjustments.

Exemptions and **deductions** are subtracted from AGI to yield **taxable income**, to which progressive tax rates —rates that rise as income rises—are applied. (Those rates are known as **statutory marginal tax rates**; the range of taxable income over which a statutory marginal rate applies is known as an **income tax bracket**, of which there are now six.) The tax that results from applying those rates to taxable income may then be subject to further adjustments in the form of **credits**, such as the child credit for taxpayers with children under age 17, which reduce taxpayers' **tax liability** (the amount of taxes they owe). An important factor in calculating individual tax liability is the **alternative minimum tax** (AMT), which requires some taxpayers to calculate their taxes under a more limited set of exemptions, deductions, and credits. Taxpayers then pay the higher of the AMT or the regular tax. The ratio of tax liability to AGI is the **effective tax rate on AGI**.

A second reason that individual income tax receipts declined relative to the level of economic activity may have been slower growth in income at the top end of the income distribution. Just as faster-than-average income growth among very high earners helped fuel the rise in receipts as a share of GDP, slower-than-average growth among those earners would accomplish the reverse. Detailed data on taxpayers' incomes are not yet available, but some evidence suggests that income growth at the top end of the income distribution slowed in 2001 and 2002.

For example, preliminary evidence suggests that income from stock options may have fallen by 50 percent in calendar year 2001. Given the decline in the stock market last year, that income is unlikely to have rebounded significantly; indeed, it may have fallen further. In the late 1990s,

Box 3-1.
Continued

The Social Insurance Tax Base

Social insurance taxes, the second largest source of receipts, use payroll as their base. Those taxes largely fund Social Security and the Hospital Insurance program (Part A of Medicare). Social Security taxes are imposed as a percentage of pay up to a **taxable maximum** that is indexed for the growth of wages in the economy. Hospital Insurance taxes are not subject to a taxable maximum.

The Corporate Income Tax Base

Corporate profits are the tax base of the corporate income tax. But the corporate profits component of GDP differs in several important respects from what is taxed by the corporate income tax.

First, the profits of the Federal Reserve System are counted as corporate profits in measures of GDP, but they are not taxed under the corporate income tax (they are instead remitted to the Treasury as miscellaneous receipts).

Second, measures of GDP calculate corporate income on the basis of **economic depreciation**—the dollar value of productive capital assets that is estimated to have been used up in the production process. For tax purposes, however, corporations calculate **book profits**, which are based on **book**, or **tax**, **depreciation**. Book depreciation is typically more front-loaded than economic depreciation; that is, the capital is assumed to be used up at a faster rate than the best estimates of how fast it is actually used up, allowing firms to report taxable profits that are smaller than economic profits.

Third, taxable corporate income includes the foreign-source income of U.S. multinational corporations when that income is "repatriated," or returned, to the U.S. parent company. Foreign-source income is not part of measured output.

Several other, smaller differences exist between corporate profits as defined in the GDP measure and corporations' calculation of their taxable income for tax purposes. If a corporation's taxable income is negative (that is, if the firm loses money), its loss (within limits) may be carried backward or forward to be netted against previous or future taxable income and thus reduce the firm's taxes in those other years. A statutory tax rate is applied to the corporation's taxable income to determine its tax liability. A number of credits (such as the credit for taxes imposed by other countries on the foreign-source income included in a firm's taxable profits) may further pare that liability. The ratio of aggregate domestic corporate taxes to aggregate taxable corporate income is the **average tax rate**.

Despite many adjustments that must be made to calculate the actual tax bases, a ready approximation is the sum of wages and salaries and corporate book profits. Those items pick up much of the bases of the individual income, corporate income, and social insurance taxes and therefore constitute the bulk of taxed income.

by contrast, income from stock options rose rapidly, with some estimates indicating that it peaked at more than $100 billion in 2000, or about 2 percent of wages and salaries. Much of that income presumably accrues to the highest-earning taxpayers and thus is taxed at the highest rates. As a result, in the past two years, a higher proportion of total wages and salaries was probably subject to lower marginal tax rates.

In addition to those factors, which affected both 2001 and 2002, last year's decline in individual income tax receipts may have resulted from factors that shifted receipts between fiscal years, making receipts in 2002 unusually low relative to GDP. As noted earlier, a given year's income tax liability is split between two fiscal years. If taxpayers pay a disproportionately large share of their ultimate liability in the form of withholding and estimated tax pay-

Table 3-5.

Actual and Projected Capital Gains Realizations and Taxes

	Capital Gains Realizations[a]		Capital Gains Tax Liabilities[a]		Capital Gains Tax Receipts[b]		Capital Gains Tax Receipts as a Percentage of Total Individual Income Tax Receipts
	In Billions of Dollars	Percentage Change from Previous Year	In Billions of Dollars	Percentage Change from Previous Year	In Billions of Dollars	Percentage Change from Previous Year	
1990	124	-20	28	-21	32	-14	6.8
1991	112	-10	25	-11	27	-17	5.7
1992	127	14	29	16	27	1	5.6
1993	152	20	36	25	32	20	6.3
1994	153	*	36	*	36	12	6.7
1995	180	18	44	22	40	10	6.8
1996	261	45	66	50	54	36	8.3
1997	365	40	79	19	72	33	9.8
1998	455	25	89	12	84	16	10.1
1999	553	21	112	26	99	19	11.3
2000	644	17	127	14	119	20	11.8
2001	322	-50	61	-52	97	-18	9.8
2002	268	-17	49	-19	55	-43	6.5
2003	294	10	54	10	51	-8	5.7
2004	322	10	60	10	56	10	5.9
2005	350	9	65	9	62	10	6.0
2006	380	8	71	8	68	9	6.1
2007	409	8	76	8	73	8	6.2
2008	440	7	82	8	79	8	6.3
2009	470	7	88	7	85	7	6.3
2010	502	7	94	7	90	7	6.3
2011	529	5	99	5	96	6	5.8
2012	557	5	104	5	101	5	5.6
2013	587	5	109	5	107	5	5.5

Sources: Congressional Budget Office; Department of the Treasury.

Notes: Capital gains realizations represent net positive gains. Data for realizations and liabilities after 2000 and data for tax receipts in all years are estimated or projected by CBO. Data for liabilities before 2001 are estimated by the Treasury Department.

* = between zero and 0.5 percent.

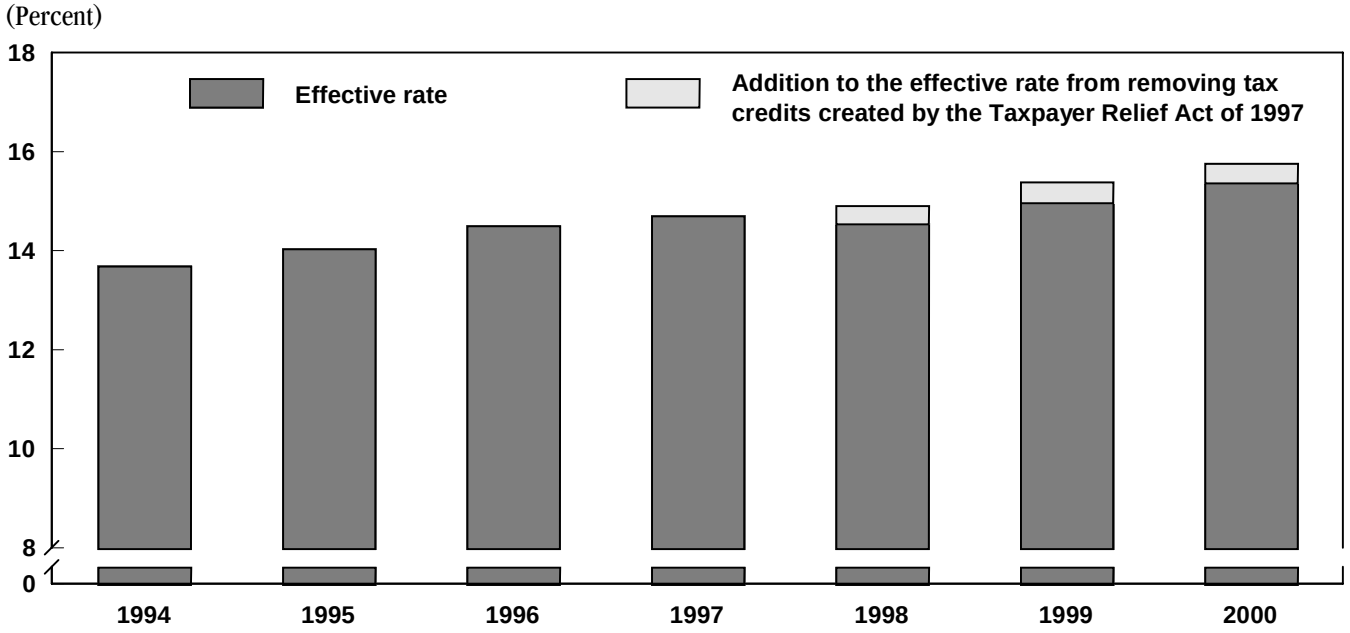
a. Calendar year basis.
b. Fiscal year basis. This measure is CBO's estimate of when tax liabilities are paid to the Treasury.

ments, more of the receipts for a given tax year will be received early (in the first of the two fiscal years) and less will arrive in the next fiscal year, when liability is settled up in April. Taxpayers paid an unusually large share of 2001 liability in the form of withheld taxes during calendar year 2001. The subsequent drop in payments of 2001 tax liability in calendar year 2002 may mean that taxpayers were surprised by economic developments in 2001 and continued to withhold higher-than-necessary amounts—a reaction that would not be surprising given the changes that occurred that year (the tax cut, the recession, and the drop in the stock market). Consequently, CBO believes that last year's lower level of receipts as a percentage of GDP sprang partly from one-time effects that are not likely to be repeated in 2003 and beyond.

Nonetheless, not all the reasons for the lower level of receipts in 2001 and 2002 have been determined. A good

Figure 3-4.

Effective Tax Rate on Individual Income, Tax Years 1994-2000



Source: Congressional Budget Office.

Note: The effective tax rate is the ratio of tax liability to income. Tax years are essentially the same as calendar years.

picture now exists of the total makeup of 2001 tax liability, but not until a sample of 2001 tax returns is available later this year will analysts be able to trace the effects of some phenomena, such as the distribution of wage income. Besides detailed tax data, revised estimates of wages and other types of income from the NIPAs may help explain the behavior of receipts over the past two years.

The Future Pattern of Individual Income Tax Receipts. CBO estimates that in dollar terms, individual income tax receipts will grow slowly this year and more rapidly thereafter. Moreover, CBO projects that those receipts will rise as a share of GDP in each of the next 10 years.

Between 2003 and 2005, the pattern of revenue growth is dominated by the nation's continued recovery from recession. Over that period, individual income tax receipts are expected to increase as economic growth picks up again. The projected rise in receipts is relatively small in 2003 but accelerates in 2004 and 2005 as taxable personal income grows faster.

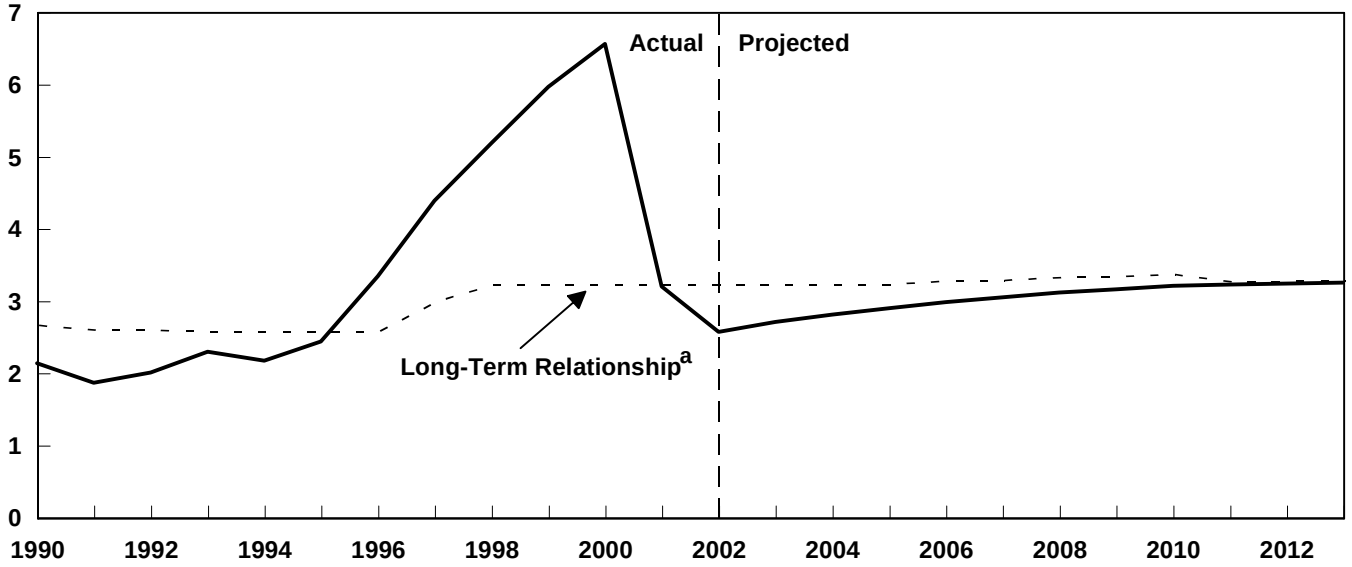
Despite the near-term effects of the economic recovery, individual income tax receipts over the 2003-2013 period are mostly influenced by four other factors, which cause those receipts to rise faster than either GDP or taxable personal income in every year of that period.

First, effective tax rates will climb over the 10-year period, which tends to increase the amount of receipts generated by the economy. The rise in the effective rate is fueled by real bracket creep and by two other factors: the alternative minimum tax (AMT) and distributions from tax-deferred retirement accounts. The AMT—which is not indexed for inflation—will affect more and more taxpayers and growing amounts of income in future years. (The increasing significance of the AMT in CBO's revenue projections is described in more detail later in this chapter.) In addition, taxable distributions from tax-deferred retirement accounts, such as individual retirement accounts and 401(k) plans, are expected to rise as the population ages. Contributions to those accounts were exempt from taxation when they were made, which reduced taxable income in earlier years. Now, as more retirees take distributions

Figure 3-5.

Capital Gains Realizations as a Share of GDP, Calendar Years 1990-2013

(Percentage of GDP)



Source: Congressional Budget Office.

a. The long-term relationship of capital gains realizations to GDP is measured as the average ratio of gains to GDP over the 1954-2001 period, adjusted for differences between each year's tax rate on capital gains and the average rate over the period. A lower tax rate on capital gains corresponds to a higher long-term relationship of gains to GDP.

from those accounts, the money becomes taxable, boosting tax receipts relative to GDP.

Second, changes in tax law—principally those enacted in EGTRRA—will tend initially to curb and then to accelerate the growth of receipts. Under that law, marginal tax rates drop again in 2004 and 2006. In addition, during the 2006-2010 period, restrictions on itemized deductions and personal exemptions for high-income taxpayers phase out and the child tax credit increases. Each of those changes will tend to reduce the growth of individual income tax receipts. However, other features of the law expire before 2010, which tends to increase receipts slightly as a share of GDP. In 2011, all provisions of EGTRRA still in effect expire, which will cause revenues to climb sharply.

Third, capital gains realizations—a significant player in past movements of receipts—play a much smaller but nonetheless positive role in CBO's projections. Because it estimates that capital gains realizations declined in 2002, CBO expects receipts from capital gains taxes to fall in 2003. Realizations are now believed to be below the level consistent with their historical relationship to GDP (*see Figure 3-5*). They are therefore projected to rise slightly to that level, pushing up receipts as a percentage of GDP modestly over the 10-year projection period.

Finally, current collections of individual income taxes are running below the amounts that would be expected given the level of economic activity, estimated capital gains realizations and retirement distributions, and other factors known to influence the effective tax rate. That shortfall is likely to continue for a few years. However, CBO assumes that it will diminish in later years. Its gradual shrinking also tends to increase individual tax receipts relative to GDP over the projection period.

Social Insurance Taxes

In CBO's projections, revenues from social insurance taxes claim a roughly constant share of GDP, declining by only 0.1 percent of GDP over 10 years (*see Table 3-6*). In relation to wages and salaries—the approximate base of those payroll taxes—revenues decline somewhat more: from 14.2 percent in 2006 to 13.9 percent by 2013.

Table 3-6.

CBO's Projections of Social Insurance Tax Receipts and the Social Insurance Tax Base

	Actual 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Social Insurance Tax Receipts														
In billions of dollars	701	725	766	811	856	901	944	989	1,037	1,085	1,134	1,188	4,277	9,709
As a percentage of GDP	6.8	6.7	6.8	6.8	6.8	6.8	6.8	6.7	6.7	6.7	6.7	6.7	n.a.	n.a.
Annual growth rate	1.0	3.5	5.6	5.9	5.6	5.2	4.8	4.8	4.9	4.6	4.6	4.7	n.a.	n.a.
Wages and Salaries														
In billions of dollars	4,982	5,181	5,442	5,743	6,047	6,365	6,697	7,043	7,405	7,771	8,134	8,533	30,294	69,179
As a percentage of GDP	48.2	48.2	48.1	48.1	48.1	48.0	47.9	47.9	47.8	47.8	47.8	47.8	n.a.	n.a.
Annual growth rate	0.7	4.0	5.0	5.5	5.3	5.3	5.2	5.2	5.1	4.9	4.7	4.9	n.a.	n.a.
Social Insurance Tax Receipts as a Percentage of Wages and Salaries	14.1	14.0	14.1	14.1	14.2	14.1	14.1	14.0	14.0	14.0	13.9	13.9	n.a.	n.a.

Source: Congressional Budget Office.

Notes: The tax base in this table (wages and salaries) reflects income as measured by the national income and product accounts rather than as reported on tax returns.

n.a. = not applicable.

The largest generators of payroll tax receipts are taxes for Social Security (officially Old-Age, Survivors, and Disability Insurance, or OASDI) and Medicare's Hospital Insurance (HI). A small share of social insurance tax revenues comes from unemployment insurance taxes and contributions to other federal retirement programs (*see Table 3-7*).

Social Security and Medicare taxes are calculated as a percentage of covered wages. Unlike the HI tax, which applies to all covered wages, the Social Security tax applies only up to a taxable maximum, which is indexed to the growth of wages over time. Consequently, receipts from OASDI and HI taxes tend to remain fairly stable as a proportion of income as long as covered wages are a stable share of GDP and the distribution of income from wages remains relatively unchanged.

CBO projects that social insurance tax receipts will decrease slightly this year relative to GDP. That decline is expected because the ratio of social insurance taxes to GDP in 2002 was unusually high, for two reasons. First, the maximum amount of wages on which OASDI taxes are imposed increases with average wages, but after a two-year lag. Hence, rapid wage growth in 2000, combined with much slower wage growth in 2002, caused the taxable maximum to rise relative to average wages and thus boosted the ratio of receipts to wages and GDP. As wages increase faster during the economic recovery and the taxable maximum lags behind, receipts in 2003 will slip slightly relative to both wages and GDP.

Second, the collections of OASDI and HI receipts in 2002 reported by the Treasury were 1.8 percent higher than CBO's models had predicted. However, reported receipts of HI and OASDI taxes are not actual receipts. When those payroll tax receipts are remitted to the Treasury, they are not distinguished from income tax withholding. The Treasury estimates the division using models and corrects any resulting error in later years. Over the past five years, those corrections have changed receipts by an average of 0.7 percent a year; in 2001, they lowered receipts by 1.9 percent. CBO believes that, as happened in 2001, the actual level of receipts was lower in 2002 than the Treasury Department currently estimates and that individual income taxes were correspondingly higher. In CBO's projections, that assumed overestimate disappears in subsequent years, driving projected receipts down relative to GDP.

Over the 10-year projection period, payroll tax receipts are expected to rise slightly and then gradually decline as

Table 3-7.

CBO's Projections of Social Insurance Tax Receipts, by Source

(In billions of dollars)

	Actual 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Social Security	515	532	558	588	619	651	685	719	756	792	830	870	3,101	7,067
Medicare	149	151	159	168	177	186	196	206	217	228	239	251	886	2,027
Unemployment Insurance	28	34	41	47	52	55	55	55	56	57	58	60	249	536
Railroad Retirement	4	4	4	4	4	4	4	4	4	4	4	4	20	41
Other Retirement	5	4	4	4	4	4	4	4	4	3	3	3	21	38
Total	**701**	**725**	**766**	**811**	**856**	**901**	**944**	**989**	**1,037**	**1,085**	**1,134**	**1,188**	**4,277**	**9,709**

Source: Congressional Budget Office.

a share of GDP. CBO projects that as the economy swings back to full employment, the ratio of total social insurance receipts to wage and salary income will increase mostly because state unemployment systems will be replenishing their trust funds following the outflow of unemployment benefits during the recession. That effect is expected to peak in 2006. After that, social insurance receipts will slowly decline as a fraction of wages, for three reasons: states will have finished replenishing their unemployment trust funds, revenues associated with other federal retirement programs will be lower as the number of workers covered by Railroad Retirement and the old Civil Service Retirement System declines, and a slightly larger fraction of total wage and salary income will be above the maximum level of earnings subject to Social Security taxes.

Compared with its projections last August, CBO is now estimating about $90 billion less in social insurance tax receipts during the 2003-2012 period. Most of that reduction stems from changes in CBO's projections of wages and salaries because of the slowdown in economic growth. The rest is due to technical changes resulting primarily from the availability of recent data, which show that corrected receipts for 2001 were lower than the figure used in CBO's August projections.

Corporate Income Taxes

Corporate income taxes contributed some of the increase in federal revenues in the 1990s, as corporate profits surpassed their performance of the previous two decades. But the current recession has reduced profits—and therefore corporate income tax receipts—substantially. Those receipts (adjusted to take into account shifts in the timing of collections legislated by EGTRRA) fell from 2.1 percent of GDP in 2000 to 1.7 percent in 2001 and 1.2 percent in 2002. CBO expects them to increase relative to GDP through 2007, reaching 2.0 percent. They will then slip slightly in the remaining years of the projection period.

Corporate income tax revenues have followed much the same pattern as individual income tax receipts, rising markedly in the late 1990s and then falling in recent years. In the case of corporate taxes, however, the peak and decline occurred earlier, and the drop was even more significant. From 1994 through 1998, corporate tax receipts grew more rapidly than the overall economy. That performance was largely driven by very strong corporate profits. But as a percentage of GDP, corporate receipts peaked in 1998 (although they remained relatively strong in 1999 and 2000). After that, corporate receipts dropped even more significantly than individual receipts did. For 2003, CBO projects that corporate tax receipts will be lower as a percentage of GDP than they have been since the mid-1980s.

EGTRRA delayed corporations' estimated tax payments from September to October 2001, shifting approximately $23 billion in revenues from fiscal year 2001 into fiscal year 2002 and thus distorting the annual pattern of corporate receipts. Adjusted to account for that shift, corporate tax revenues fell from $207 billion in 2000 to $174 billion in 2001 and $125 billion in 2002, CBO estimates.

Table 3-8.

CBO's Projections of Corporate Income Tax Receipts and Tax Bases

	Actual 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Corporate Income Tax Receipts														
In billions of dollars	148	156	185	228	249	260	269	276	285	295	306	316	1,190	2,669
As a percentage of GDP	1.4	1.5	1.6	1.9	2.0	2.0	1.9	1.9	1.8	1.8	1.8	1.8	n.a.	n.a.
Annual growth rate	-2.0	5.5	18.3	23.4	9.3	4.2	3.4	2.9	3.1	3.7	3.6	3.4	n.a.	n.a.
Corporate Book Profits														
In billions of dollars	641	707	786	1,070	1,192	1,230	1,260	1,292	1,331	1,373	1,419	1,463	5,539	12,416
As a percentage of GDP	6.2	6.6	7.0	9.0	9.5	9.3	9.0	8.8	8.6	8.4	8.3	8.2	n.a.	n.a.
Annual growth rate	-9.5	10.3	11.2	36.1	11.3	3.2	2.4	2.6	3.0	3.1	3.3	3.1	n.a.	n.a.
Taxable Corporate Profits[a]														
In billions of dollars	500	561	598	803	886	913	933	956	985	1,014	1,045	1,076	4,133	9,209
As a percentage of GDP	4.8	5.2	5.3	6.7	7.0	6.9	6.7	6.5	6.4	6.2	6.1	6.0	n.a.	n.a.
Annual growth rate	-12.1	12.1	6.6	34.4	10.4	3.0	2.3	2.4	3.0	3.0	3.1	2.9	n.a.	n.a.
Corporate Tax Receipts as a Percentage of Taxable Profits	29.6	27.9	30.9	28.4	28.1	28.5	28.8	28.9	28.9	29.1	29.3	29.4	n.a.	n.a.
Adjusted Corporate Tax Receipts as a Percentage of Taxable Profits[b]	25.0	27.9	32.0	27.6	28.1	28.5	28.8	28.9	28.9	29.1	29.3	29.4	n.a.	n.a.

Source: Congressional Budget Office.

Notes: The tax bases in this table (corporate book profits and taxable corporate profits) reflect income as measured by the national income and product accounts rather than as reported on tax returns.

n.a. = not applicable.

a. Taxable corporate profits are defined as book profits minus profits earned by the Federal Reserve System, transnational corporations, and S corporations and minus deductible payments of state and local corporate taxes. They include capital gains realized by corporations.

b. Excludes the shift in corporate receipts from 2001 to 2002 and from 2004 to 2005 enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001.

That drop was caused almost entirely by the slowing of the economy and the effects of the economic stimulus package enacted last March. The stimulus package allowed more-rapid write-offs of investment and increased firms' ability to use losses from 2001 and 2002 to offset tax liability in previous years. That expanded "carryback" provision made companies better able to obtain refunds of previous years' taxes on the basis of losses in each of the past two years. The result was a substantial increase in corporate tax refunds in fiscal year 2002 and a substantial fall in net corporate tax receipts.

CBO's projection of corporate receipts for the next 10 years reflects a combination of recovery from the recession, effects of the stimulus package and its expiration, and longer-term changes in profits as a share of GDP. CBO expects corporate tax receipts to recover somewhat in 2003 and then grow more strongly, so that by 2005, they reach 1.9 percent of GDP. Those receipts remain between 1.8 percent and 2.0 percent of GDP through the end of the projection period (*see Table 3-8*).

In CBO's economic forecast, corporations' book profits—the underlying base of the corporate income tax—grow faster than GDP from 2003 through 2006. (For more details of CBO's outlook for the economy, see Chapter 2.) Their growth in 2003 and 2004 is largely caused by recovery from the 2001 recession, in which profits were especially depressed. The effect of economic recovery on book profits is an important reason that corporate tax receipts

Table 3-9

CBO's Projections of Excise Tax Receipts, by Source

(In billions of dollars)

	Actual 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Highway Taxes	34	34	36	37	39	40	41	42	43	44	45	46	192	412
Airport Taxes	9	9	10	11	12	12	13	14	14	15	16	17	58	134
Telephone Taxes	6	6	7	7	8	8	9	9	10	10	11	11	38	89
Alcohol Taxes	8	8	8	8	9	9	9	9	9	9	9	9	43	88
Tobacco Taxes	8	8	8	8	8	8	8	8	8	8	8	8	40	80
All Other Excise Taxes	3	3	3	3	3	3	3	3	3	3	3	3	13	27
Total	**67**	**68**	**71**	**74**	**77**	**79**	**82**	**84**	**87**	**90**	**92**	**95**	**383**	**831**

Source: Congressional Budget Office.

rise relative to GDP in the first half of the projection period.

Corporate receipts in the first half of that period are also affected by provisions of the stimulus package. Because of the availability of expanded carryback losses in calendar year 2002, corporate tax refunds are expected to be high in fiscal year 2003, tending to depress receipts. But in fiscal year 2004, the opposite will occur, because refunds that otherwise might have been paid in that year will have been accelerated into 2002 and 2003. Some of that effect can be seen in the behavior of receipts as a percentage of taxable profits. The percentage is especially low in 2002 because of the expanded carryback refunds and high in 2004 because of their lapse. In addition, the partial-expensing provisions of the stimulus law expire in 2004. Accelerated depreciation has the effect of reducing tax liability immediately at the cost of higher liability later. Hence, beginning in 2005, the corporate income tax begins to recoup some of its earlier loss of receipts, a gain that shows up mostly in the increase in taxable profits relative to GDP in 2005 and 2006. Another effect from tax-law changes occurs in 2004 and 2005, when EGTRRA again shifts some tax receipts between two fiscal years.

After 2006, CBO expects profits to decline gradually relative to GDP, decreasing corporate taxes as well. That effect is somewhat muted by a small rise in receipts as a percentage of taxable profits. As profits decline relative to GDP, losses as a proportion of net profits are higher. Firms pay taxes to the government on the profits they earn, but they do not receive payments from the government if they lose money (except to the extent that they can carry their losses forward or backward to offset profits in other years). Consequently, the overall effective corporate tax rate—receipts divided by net profits—tends to be higher when net corporate profits are lower.

CBO is now projecting about $100 billion more in corporate tax receipts over the 2003-2012 period than it did in August. About a third of that increase results directly from changes in CBO's economic forecast. The rest stems from technical changes, which mostly reflect a reinterpretation of tax collections in 2002. Last August, CBO recognized that corporate tax collections (net of refunds) were lower than would be expected given the economic conditions believed to have existed at that time. CBO projected that shortfall to continue. It now appears that the unexpected behavior of corporate tax collections last year can be explained by higher refunds generated by greater use of the expanded carryback provisions. Since those provisions are temporary, CBO now assumes that collections will return to their expected relationship to overall profits and tax liability. That assumption raises the level of receipts projected for the years after 2003, when the carryback provisions expire.

Excise Taxes

Receipts from excise taxes are expected to continue their long-term decline as a share of GDP, falling from 0.6 percent in 2002 to 0.5 percent toward the end of the 10-year projection period. Most excise taxes—those generating

about 80 percent of total excise revenues—are levied per unit of good or per transaction rather than as a percentage of value. Thus, excise receipts grow with real GDP, but they do not rise with inflation and therefore do not grow as fast as nominal GDP does.

Nearly all excise taxes fall into five major categories: highway, airport, telephone, alcohol, and tobacco taxes (*see Table 3-9*). Almost half of all excise receipts are earmarked by law to the Highway Trust Fund; they come primarily from taxes on gasoline and diesel fuel. Most airport and telephone excise taxes are levied on a percentage basis, so they grow at a faster rate than the other categories do. Tobacco taxes rose at the beginning of 2002 but are expected to remain roughly stable from 2003 through 2013.

CBO's current projection of total excise tax receipts for the next 10 years is slightly lower than the projection it published in August. Changes in CBO's economic forecast reduce that projection by just a few billion dollars. Technical adjustments have a bigger effect, lowering projected excise receipts by a total of about $15 billion over the 2003-2012 period. Half of that decrease comes from reduced projections of motor fuel taxes, largely because CBO assumes that a greater share of the demand for motor fuel will be for oxygenated fuels, which are taxed at a lower rate. The other half of the reduction comes largely from lower projections of receipts from passenger ticket taxes dedicated to the Airport and Airway Trust Fund.

Estate and Gift Taxes

CBO expects receipts from estate and gift taxes to change in importance over the projection period: their share of GDP is forecast to decline from 0.3 percent in 2002 to 0.1 percent in 2010 and 2011 before jumping back to 0.3 percent in 2012 and 2013. That pattern results from the phasing out of the estate tax under EGTRRA and its subsequent reinstatement when the law expires in 2011.

In the past, revenues from estate and gift taxes tended to grow more rapidly than income because the unified credit for the two taxes, which effectively exempts some assets from taxation, is not indexed for inflation. Under EGTRRA, however, the pattern of receipts over time is quite different. The estate tax is gradually being eliminated; the gift tax remains in the tax code but in a modified form. Today, tax law effectively exempts $1 million of an estate from taxation. EGTRRA will raise that amount to $3.5 million in 2009. EGTRRA will also reduce the highest tax rate on estates from 50 percent to 45 percent by 2007 and then eliminate the tax in 2010. The law's provisions are scheduled to expire at the end of 2010, however, which means that the estate tax is set to return the following year. Because estate tax liabilities are paid after a lag, and because the gift tax remains in the tax code, receipts from estate and gift taxes do not disappear completely in CBO's projection period but instead reach a trough in 2010 (*see Table 3-10*). CBO estimates that in 2012 they will return to their 2002 share of GDP.

CBO's current projections of estate and gift tax receipts are similar to those it produced last August. Changes in CBO's economic forecast have had a negligible effect on the projections. Small technical changes—including the impact of the stock market on projected wealth and reestimates of gift tax receipts around the time EGTRRA expires—net to an increase of $7 billion in receipts over 10 years compared with the August projections.

Other Sources of Revenues

Customs duties and numerous miscellaneous sources bring in much smaller amounts of revenue than the major levies do. CBO estimates that those revenues will remain fairly steady as a share of GDP—at just above 0.5 percent—throughout the projection period. That share will be slightly lower in the first few years, however, because of the effect of low short-term interest rates on the Federal Reserve System's earnings.

CBO projects that customs duties will grow over time in tandem with imports. During the next few years, however, their growth will be curbed as tariff reductions enacted in 1994 are phased in. Projections of customs duties are slightly higher now than in August, largely for technical reasons.

The largest component of miscellaneous receipts is the profits of the Federal Reserve System, which are counted as revenues once they are turned over to the Treasury (*see Table 3-10*). Those profits depend on the interest that the Federal Reserve earns on its portfolio of securities and on gains and losses from its holdings of foreign currency. In the past two years, earnings on securities have declined

Table 3-10.

CBO's Projections of Other Sources of Revenue

(In billions of dollars)

	Actual 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Estate and Gift Taxes	27	21	24	21	24	20	22	23	15	19	43	47	110	258
Customs Duties	19	18	20	20	21	22	23	24	25	26	27	28	107	237
Miscellaneous Receipts														
Federal Reserve earnings	24	22	24	29	33	36	38	41	42	44	46	49	159	382
Universal Service Fund	5	6	7	7	7	7	7	7	7	7	8	8	34	71
Other	5	5	5	5	5	5	5	5	5	5	5	5	24	47
Subtotal	34	33	36	40	44	47	50	52	54	56	59	61	217	500
Total	**79**	**73**	**79**	**82**	**89**	**89**	**95**	**100**	**94**	**102**	**129**	**137**	**434**	**995**

Source: Congressional Budget Office.

as the Federal Reserve has lowered interest rates to stimulate economic growth and counter the economy's downturn. In addition, the recession has slowed the growth of the Federal Reserve's portfolio of assets because of slower growth in the public's holdings of U.S. currency. Those factors have led CBO to project that receipts from the Federal Reserve System this year will be substantially below the average of recent years. However, the central bank's income—and therefore the receipts it remits to the Treasury—are expected to return to their previous trend in 2004 and 2005.

Since August, expectations of slower economic growth have led CBO to reduce its projection of miscellaneous receipts for the 2003-2012 period by about $12 billion. Partly offsetting that reduction, reestimates of activity in the Universal Service Fund (which result in corresponding increases in projected spending) and other, smaller technical revisions raise the 10-year projection of miscellaneous receipts by about $6 billion.

The Growing Significance of the AMT in CBO's Projections

The alternative minimum tax will increasingly become a consideration in discussions about many different aspects of tax policy. For one thing, the AMT is an important reason why receipts are expected to grow relative to GDP over the next 10 years. For another thing, it substantially reduces the revenue loss that would occur if the provisions of EGTRRA that are scheduled to expire at the end of 2010 were extended. Further, the AMT will affect more and more taxpayers in coming years, many of whom were not the intended target of the tax when it was enacted. As the impact of the AMT grows over time, reforming or repealing it will become more expensive, leaving less room to reduce taxes in other ways.

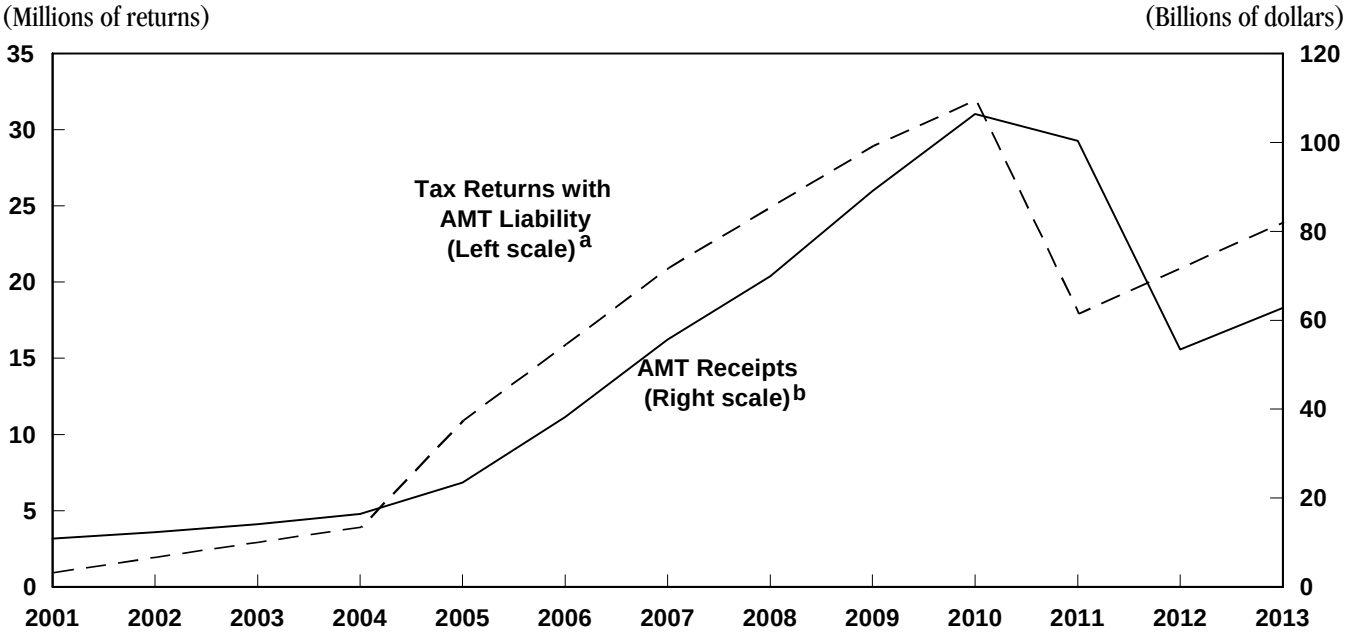
Characteristics of the Alternative Minimum Tax

The AMT is a parallel income tax system with fewer exemptions, deductions, and rates than the regular income tax. It was enacted to limit the extent to which high-income taxpayers can reduce the amount of tax they owe by using various preferences in the regular tax code. Taxpayers with potential AMT liability must calculate their taxes under both the AMT and the regular income tax and pay whichever figure is higher. The amount by which a taxpayer's AMT calculation exceeds his or her regular tax calculation is defined as AMT liability.

Like the rate structure of the regular income tax, the AMT extracts a greater proportion of overall income as real income rises. But unlike the regular income tax, the AMT is not indexed to inflation. Consequently, inflation increases the amount of income to which the AMT applies and the number of taxpayers subject to it each year. Those effects are compounded by the cuts in marginal tax rates enacted in EGTRRA. Because those cuts reduce regular

Figure 3-6.

Projected Effects of the Individual Alternative Minimum Tax



Source: Congressional Budget Office.

Note: The alternative minimum tax requires some taxpayers to calculate their taxes under a more limited set of exemptions, deductions, and credits than the set applicable under the regular individual income tax.

a. Calendar year basis.
b. Fiscal year basis.

tax liability without changing the AMT, they further increase the AMT's contribution to total revenues.

The preferences not allowed under the AMT include personal exemptions and the standard deduction, so the AMT reaches some taxpayers not ordinarily thought of as exploiting "loopholes" to avoid taxation of high incomes. That situation increases over time as nominal income grows. For example, in tax year 2005, a married taxpayer earning $90,000 who has three children and reports a typical set of deductions will be subject to the AMT under current law.

The AMT's Impact Over the Next 10 Years

For the moment, the growing reach of the alternative minimum tax has been slowed because EGTRRA raised the amount of income that is exempt from the tax. But that provision will expire at the end of 2004. After that, the number of taxpayers subject to the AMT will rise sharply.

Comparing the number of taxpayers subject to the AMT and the amount that the tax raises in 2002 with those effects in 2013 (after the remaining provisions of EGTRRA expire) demonstrates how the impact of the AMT increases as a result of nominal income growth. CBO estimates that in 2002, 2 million tax returns will have AMT liability, and receipts from the tax will total $12 billion (*see Figure 3-6*).

In 2013, about 24 million returns are projected to have AMT liability, and the tax will add an estimated $60 billion in revenues. Over that 11-year span, the importance of the AMT as a source of individual income tax receipts more than doubles, from contributing 1.4 percent of those receipts to 3.2 percent.

In the years in between, the rise and fall of the AMT's projected effects reflect the phasing in and expiration of provisions of EGTRRA. The number of returns subject to the AMT rises from 4 million in 2004 (just before the provision raising the exemption amount expires) to about

33 million in 2010 (just before the rest of EGTRRA's provisions expire). In fiscal year 2010, the AMT is projected to add more than $100 billion to the revenues from the regular tax, or about 7 percent of total individual income tax receipts. The differences between 2010 and 2012 in AMT receipts ($50 billion) and returns affected (12 million) indicate the degree to which the cuts in marginal tax rates under EGTRRA will have been muted by the AMT.

Issues in Reforming the Alternative Minimum Tax

Whether EGTRRA is allowed to expire, its provisions are extended, or its scheduled rate cuts are rescinded before taking effect, the increasing bite of the AMT has an impact on the amount of revenue that will result. Moreover, with each passing year, the alternative minimum tax plays a bigger and bigger role in revenue projections, meaning that the budget baseline is increasingly contingent on retention of the AMT.

The first issue that lawmakers will face with respect to the alternative minimum tax comes up immediately. In 2003, the provision of the tax code that allows taxpayers to claim the education tax credits enacted in the Taxpayer Relief Act of 1997 and other personal credits against the AMT will expire. That provision was extended temporarily in 1998, 1999, and 2002. Extending it permanently would cost about $44 billion over the next decade.

Reform of the AMT could take various forms. Besides extending the provisions that are scheduled to expire, such reform could include eliminating exemptions for dependents or the standard deduction as preferences under the AMT or indexing the AMT exemption for inflation. It could also take the form of repealing the alternative minimum tax. That would be the most expensive option, costing the federal government roughly $600 billion in revenues through 2013 (assuming that the repeal took effect in tax year 2004).

AMT reform and the costs associated with it are closely tied up with the costs of extending EGTRRA. The existing AMT would substantially mute the revenue loss associated with extending the EGTRRA provisions that expire at the end of 2010. Similarly, the cost of reducing or eliminating the AMT would be higher if EGTRRA were extended. For example, repealing the AMT would cost roughly $200 billion more if EGTRRA did not expire. Because of those interactions, reforming the AMT and extending EGTRRA would cost more if carried out together than the sum of the individual costs of those policy changes.

The Effects of Expiring Tax Provisions

CBO's revenue projections rest on the assumption that current tax laws remain unaltered except for scheduled changes and expirations, which occur on time. The sole exception to that approach is the expiration of excise taxes dedicated to trust funds, which, under budget rules, are included in the revenue projections whether or not they are scheduled to expire.

The assumption that tax provisions expire as scheduled can have a significant impact on CBO's estimates—even in ordinary circumstances, when those provisions do not include such large changes as the EGTRRA tax cuts or the special depreciation rules enacted in last year's economic stimulus package. Many expiring provisions are extended almost as a matter of course, and most of them reduce receipts. Thus, revenue projections that assumed the extension of those provisions would be lower than revenue estimates projected under current law. To provide as complete an outlook for revenues as possible, this section details the various tax provisions whose expiration is reflected in CBO's projections.

Provisions That Expire in 2003

Seventeen tax provisions are scheduled to expire by the end of 2003, of which 15 reduce revenues (*see Table 3-11*). Most of them had been set to expire before and were extended temporarily, in some cases numerous times. If all 15 of the revenue-reducing provisions were immediately and permanently extended, revenues would be a total of $68 billion lower over the 2004-2013 period. About two-thirds of that effect—or $44 billion—would come from the measure that allows taxpayers to claim certain personal credits (especially the education tax credits that were enacted in the Taxpayer Relief Act of 1997) against the AMT. As noted earlier, that provision had previously been scheduled to expire and was extended temporarily in 1998, 1999, and 2002.

Two provisions that increase revenues are also scheduled to expire by the end of 2003. If they were extended,

revenues would rise by a total of $13 billion over the 2004-2013 period. Nearly all of that effect would come from a provision enacted in last year's stimulus package. It raises the interest rate that firms use to calculate their required contributions to defined-benefit pension plans and their premium payments to the Pension Benefit Guaranty Corporation, both of which are tax-deductible.

Provisions That Expire During the 2004-2013 Period

A number of additional provisions will expire during CBO's current projection period. The most significant of those from a budgetary perspective are the ones enacted in EGTRRA. Three provisions of that law—the increased exemption amount for the AMT, the deduction for qualified education expenses, and the credit for individual retirement accounts and 401(k)-type plans—are set to expire by the end of 2006. The rest of the provisions, which represent the bulk of the law's budgetary effects, expire on December 31, 2010. If all of those measures were extended, revenues would be $785 billion lower through 2013, CBO and the Joint Committee on Taxation (JCT) project. Most of that reduction ($665 billion) would come at the end of the period, in 2011 through 2013, mainly as a result of extending the tax cuts that would otherwise expire at the end of 2010. Those cuts include the decreases in marginal tax rates for individuals, increases in the child tax credit, and repeal of the estate tax.

About $120 billion of the revenue loss from extending the expiring provisions of EGTRRA would occur before 2011. Immediately extending the changes to estate and gift taxes, which expire at the end of 2010, could reduce revenues as early as this year. The reason is that if taxpayers knew that the repeal of the estate tax would become permanent in 2011, some might postpone taxable gifts that they would otherwise have made during this decade. CBO's and JCT's estimates of the effects of extending EGTRRA also incorporate the assumption that the higher exemption levels for the AMT, which expire in 2004, are extended at their 2004 levels. Under that assumption, the exemption levels would not rise with inflation, so a growing number of taxpayers would still become subject to the AMT over time—albeit fewer than if the higher exemption levels expired as now scheduled.

Sixteen provisions not related to EGTRRA end between 2004 and 2009, 12 of which would reduce revenues if extended. The one with by far the greatest effect is the provision to allow a special depreciation allowance of 30 percent for equipment investment made by September 10, 2004. That provision, enacted in March 2002 as a part of the economic stimulus package, is supposed to expire next year. If extended, it would reduce revenues by $256 billion through 2013. The provision with the second largest effect is the research and experimentation tax credit, which was enacted in 1981. In 1999, the Congress extended that tax benefit through June 2004, for the ninth and longest time. Continuing the credit through 2013 would reduce revenues by about $56 billion. In all, extending those 12 revenue-reducing provisions would decrease receipts by $370 billion through 2013. Excluding the depreciation provision enacted in the economic stimulus package—which was not intended to be permanent—extension of the remaining provisions would lower revenues by $114 billion through 2013.

Four provisions that expire between 2004 and 2008 would increase revenues if they were extended. The provision with the largest revenue effect is the Federal Unemployment Tax Act surcharge, which expires in 2008. Extending that provision would raise about $8 billion in revenues through 2013. The other three provisions would impose fees for the reclamation of abandoned mines, allow employers to transfer excess assets in defined-benefit pension plans to a special account for retirees' health benefits, and provide authority to the Internal Revenue Service for certain undercover operations. Extending the mine fees would raise more than $200 million per year. The two remaining provisions would each raise less than $50 million annually.

Expiring Provisions That Are Included in CBO's Baseline

Budget rules require CBO to include in its projections excise tax receipts earmarked for trust funds, even if provisions for those taxes are scheduled to expire. The largest such taxes that are slated to expire during the next 10 years finance the Highway Trust Fund. Some of the taxes for that fund are permanent, but most of them end on September 30, 2005. Extending them at today's rates

Table 3-11.

Effect of Extending Tax Provisions That Will Expire Before 2013

(In billions of dollars)

Tax Provision	Expiration Date	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Provisions Expiring in 2003														
IRS User Fees	9/30/2003	n.a.	**	**	**	**	**	**	**	**	**	**	0.2	0.4
Archer Medical Savings Accounts	12/31/2003	n.a.	*	*	*	*	*	*	*	*	*	*	*	-0.1
Brownfields Remediation	12/31/2003	**	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-1.3	-2.9
Credit for Electric Vehicles	12/31/2003	n.a.	*	*	*	*	*	*	*	*	*	*	-0.1	-0.2
Credit for Electricity Production from Renewable Sources	12/31/2003	n.a.	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6
Corporate Contributions of Computers to Schools	12/31/2003	n.a.	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.6	-1.5
Deductions for Clean-Fuel Vehicles and Refueling Property	12/31/2003	n.a.	-0.1	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-1.1	-2.4
Deduction for Teachers' Classroom Expenses	12/31/2003	n.a.	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-1.1	-2.6
Interest Rate for Pension Calculations	12/31/2003	n.a.	1.7	2.5	1.4	1.8	1.9	1.3	0.9	0.4	0.2	0.2	9.3	12.3
Net Income Limitation for Marginal Oil and Gas Wells	12/31/2003	n.a.	*	*	*	*	*	*	*	*	*	*	-0.2	-0.4
Qualified Zone Academy Bonds	12/31/2003	n.a.	*	*	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
Reduction in Policyholder Dividends for Insurance Companies	12/31/2003	n.a.	*	*	*	*	*	*	*	*	*	*	-0.2	-0.4
Tax Incentives for Investment in the District of Columbia	12/31/2003	n.a.	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.3	-0.3	-0.4	-0.4	-0.5	-2.2
Treatment of Nonrefundable Personal Credits Under the AMT	12/31/2003	n.a.	-0.1	-1.0	-2.4	-3.5	-4.1	-4.7	-5.2	-6.0	-7.9	-8.8	-11.1	-43.8
Welfare-to-Work Tax Credit	12/31/2003	n.a.	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-1.0
Work Opportunity Tax Credit	12/31/2003	n.a.	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-1.2	-3.0
Tax Incentives for Areas of New York City Damaged on Sept. 11	Various[a]	n.a.	-0.1	-0.3	-0.3	-0.7	-0.9	-0.8	-0.8	-0.8	-0.8	-0.7	-2.2	-6.2

Sources: Joint Committee on Taxation, Congressional Budget Office.

Notes: * = between -$50 million and zero; ** = between zero and $50 million; n.a. = not applicable; IRS = Internal Revenue Service; AMT = alternative minimum tax; IRA = individual retirement account; FUTA = Federal Unemployment Tax Act; EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001.

These estimates assume that the expiring provisions are extended immediately rather than when they are about to expire. The provisions are assumed to be extended at the rates or levels existing at the time of expiration. These estimates do not include effects on debt-service costs.

When this report went to press, JCT's estimates were unavailable for several expiring tax provisions—most significantly, for EGTRRA's major individual income tax provisions that expire in 2010 and for the AMT provisions that expire in earlier years. CBO estimated the effects of extending those provisions, as well as the interaction from extending all expiring tax provisions simultaneously. As a result, cost estimates by JCT for legislative proposals to extend the EGTRRA and AMT provisions might not match the figures shown here.

(Continued)

Table 3-11.

Continued

(In billions of dollars)

Tax Provision	Expiration Date	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Provisions Expiring Between 2004 and 2013														
Credit for Research and Experimentation	6/30/2004	n.a.	-0.5	-3.3	-4.3	-5.2	-6.0	-6.6	-7.0	-7.5	-7.9	-8.3	-19.1	-56.4
Special Depreciation Allowance for Certain Property	9/10/2004	n.a.	n.a.	-27.7	-41.7	-38.9	-34.4	-29.4	-24.9	-21.5	-19.0	-18.3	-142.6	-255.7
Abandoned-Mine Reclamation Fees	9/30/2004	n.a.	n.a.	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	1.0	2.2
Depreciation for Business Property on Indian Reservations	12/31/2004	n.a.	**	-0.2	-0.4	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-1.7	-3.3
Depreciation of Clean-Fuel Automobiles	12/31/2004	n.a.	n.a.	*	*	*	*	*	*	*	*	*	*	-0.1
Increased AMT Exemption Amount	12/31/2004	n.a.	n.a.	-3.3	-10.2	-14.4	-18.2	-22.4	-25.3	-21.5	-14.8	-17.2	-46.1	-147.3
Indian Employment Tax Credit	12/31/2004	n.a.	n.a.	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.5
Authority for Undercover IRS Operations	12/31/2005	n.a.	n.a.	n.a.	**	**	**	**	**	**	**	**	**	**
Deduction for Qualified Education Expenses	12/31/2005	n.a.	n.a.	n.a.	-1.7	-2.4	-2.6	-2.8	-2.9	-2.6	-2.6	-2.6	-6.8	-20.3
Puerto Rico Business Credits	12/31/2005	n.a.	n.a.	n.a.	-0.7	-1.6	-1.8	-1.9	-2.1	-2.3	-2.6	-3.0	-4.0	-16.0
Transfer of Excess Assets in Defined-Benefit Plans	12/31/2005	n.a.	n.a.	n.a.	**	**	**	**	**	**	**	**	0.1	0.3
Andean Trade Preference Initiative	12/31/2006	n.a.	n.a.	n.a.	n.a.	*	*	*	*	*	*	*	-0.1	-0.2
Credit for IRA and 401(k)-Type Plans	12/31/2006	n.a.	n.a.	n.a.	n.a.	-0.7	-1.4	-1.2	-1.1	-1.0	-1.0	-0.9	-2.0	-7.3
Generalized System of Preferences	12/31/2006	n.a.	n.a.	n.a.	n.a.	-0.4	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8	-1.0	-4.7
Subpart F for Active Financing Income	12/31/2006	n.a.	n.a.	n.a.	n.a.	-0.9	-2.7	-3.1	-3.5	-4.0	-4.4	-4.8	-3.6	-23.3
Alcohol Fuels Income Credit	12/31/2007	n.a.	n.a.	n.a.	n.a.	n.a.	*	*	*	*	*	*	*	*
FUTA Surtax of 0.2 Percentage Points	12/31/2007	n.a.	n.a.	n.a.	n.a.	n.a.	1.0	1.5	1.5	1.5	1.5	1.5	1.0	8.5
New Markets Tax Credit	12/31/2007	n.a.	n.a.	n.a.	n.a.	n.a.	-0.1	-0.3	-0.4	-0.6	-0.8	-1.0	-0.1	-3.3
Empowerment and Renewal Zones	12/31/2009	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-0.8	-1.7	-1.8	-2.0	n.a.	-6.4
General Expiration of EGTRRA Provisions	12/31/2010	-0.1	-0.5	-0.8	-1.0	-1.3	-1.7	-1.6	-2.4	-131.0	-230.2	-239.7	-5.3	-610.1
All Expiring Provisions[b]														
Total		-0.1	-0.1	-33.9	-61.4	-69.2	-72.7	-73.9	-76.1	-206.1	-307.6	-321.0	-237.4	-1,222.0

a. The provision that expands the work opportunity tax credit in New York City expires on 12/31/2003. The provisions that increase expensing under section 179 and allow a five-year lifetime for leasehold improvements expire on 12/31/2006. The provisions related to 30 percent bonus depreciation for property placed in service expire on 12/31/2006 and 12/31/2009.

b. The overall total does not equal the sums of the separate provisions because it includes estimated interactions among provisions, which are especially important from 2011 through 2013. Those interactions, which would occur if all of the provisions were extended together, would reduce revenues by $23 billion in the 2004-2013 period.

contributes $38 billion to CBO's revenue projections in 2013, or about 40 percent of that year's total excise tax receipts.

Other expiring trust fund taxes, if extended, would account for smaller amounts in 2013, CBO estimates. Taxes dedicated to the Airport and Airway Trust Fund, which are scheduled to expire at the end of 2007, would contribute about $16 billion to revenues in 2013. Taxes for the Leaking Underground Storage Tank Trust Fund, set to end on March 31, 2005, would contribute about $250 million. No other expiring tax provisions are automatically extended in CBO's projections.

Total Effects of Expiring Provisions

If all expiring tax provisions were extended together, the revenue projection for 2004 would be $0.1 billion lower. However, that revenue loss would grow to $34 billion the following year and to $76 billion by 2010, before jumping to $206 billion in 2011 and then reaching $321 billion by 2013. Over the entire 2004-2013 period, revenues would be reduced by more than $1.2 trillion. (That estimate of the effects of jointly extending the expiring provisions includes interactions among the provisions, which reduce revenues by $23 billion over that period.) A more limited measure of the effects of extending expiring legislation would not include provisions of the economic stimulus law, which were not intended to be permanent. If all but those expiring provisions were extended, federal revenues would be $960 billion lower through 2013.